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SUBJECT: INDONESIA ENACTS A NEW ELECTRICITY LAW

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¶1. Indonesia's Parliament recently passed a new electricity law to increase development of the power sector by allowing local governments to set local tariff rates and establish companies that can compete with PLN, the national power utility, in power generation, transmission, and distribution. The new law enables regional governments to develop power projects on their own, but observers are skeptical that the new law will encourage investment. Legislators hope the law will provide the incentives and competition that have been lacking since the constitutional court annulled the previous electricity law in 2002, on the grounds that private sector competition in that that contravened article 33 of the Indonesia Constitution.

#### Legislative Approvals for Electricity Tariff

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¶2. Airlangga Hartanto, Former Chairman of Parliament's Commission 7, which oversees legislation on oil, gas, mining, and power, stated that the new electricity law gives local governments the power to generate, transmit, and distribute electricity, set regional prices and determine local subsidy levels. Airlangga believes that this arrangement allows local governments to develop electricity when PLN, the national electricity monopoly, has been unable or unwilling to do so.

¶3. However, some observers are skeptical of the scope of the law's impact. Officers at the Indonesia Electricity Society (MKI) said that the law's vague language allowed many groups to believe that it would advance their causes. But MKI members believed that the only working model of regional electricity pricing is the island of Batam, which is a special business processing and export zone. There are additional problems to electricity competition, including questions about access to PLN's distribution network, methods to compute end-user prices if local feed-in tariffs are different from PLN's tariff, and management of local subsidies.

#### Renewable Energy Goal

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¶4. Despite the uncertainty, Indra Sari, an energy officer at World Wildlife Fund, believes that the new law raises the opportunity to develop renewable energy projects. Currently, one of the biggest obstacles to renewable energy development is PLN's reluctance to plan for or sign contracts with renewable energy projects. Under the new law, regional governments can create local government-owned companies to purchase and distribute the electricity.

¶5. To make electricity competition work, local governments must

still create rational business incentives to attract investment, according to Dollaris Riauaty, the Executive Director of Swisscontact Indonesia, an NGO specializing in poverty reduction and technical assistance. Key among these incentives is being able to offer competitive feed-in tariffs, something that Indonesia's current system of subsidies makes difficult. In the meantime, the Indonesian government must make a credible road map to develop renewable energy.

#### Business Development

¶6. Officers at MKI said, once the implementing regulations clarify the regional jurisdictions, the new law allows local governments to extend two new types of permits: electricity business permits for public distribution, and electricity business permits for industrial own use. These permits narrowly define the customer base, so that electricity producers cannot designate both industrial and public customers. However, MKI was hopeful that the law would increase energy options for manufacturing in Indonesia. However, the new law is unclear and industry observers are waiting for clarification in the implementing regulations.

#### Role of National Energy Policy

¶7. The new law mandates that the primary energy sources must be used optimally in accordance with the National Energy Policy (NEP) and gives greater priority to new and renewable energy sources. The NEP itself will be prepared by the National Energy Committee (NEC), chaired by President Yudhoyono. The GOI has already released its energy mix target to be achieved in 2025, in which renewable energy is slated to provide 17% of total energy. The NEC now has the task of determining the policies that will achieve this goal.

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